

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER LESLIE COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the former Leslie County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$16,878 from the prior year, resulting in excess fees of \$17,179 as of December 31, 2004. Revenues increased by \$10,786 from the prior year and expenditures decreased by \$6,092.

Debt Obligations:

Total borrowed money debt principal as of December 31, 2004, was \$4,736.

The Sheriff's capital lease agreement totaled \$2,273 as of December 31, 2004.

Report Comments:

- 2004-01 The Former Sheriff Should Have Distributed Fringe Benefit Reimbursements To The Fiscal Court In A Timely Manner
- 2004-02 The Former Sheriff Should Have Maintained Adequate Supporting Documentation For COPS Grant Reimbursement Request
- 2004-03 The Former Sheriff Should Have Obtained A Salary Cap For Deputies' Salaries
- 2004-04 The Former Sheriff Should Have Made Daily Deposits
- 2004-05 The Former Sheriff Lacked An Adequate Segregation Of Duties
- 2004-06 The Former Sheriff Should Have Submitted Required Financial Reports To The Governor's Office For Local Development
- 2004-07 The Former Sheriff Should Have Improved Internal Controls Over Fee Expenditures
- 2004-08 The Former Sheriff Should Have Improved Internal Controls Over Payroll Records

Deposits:

As of June 7, 2004, the former Sheriff's deposits were uninsured and uncollateralized by bank securities or bonds by \$442,780.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable John C. Morgan, Former Leslie County Sheriff
Honorable Paul R. Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Leslie County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable John C. Morgan, Leslie County Sheriff
Honorable Paul R. Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2004-01 The Former Sheriff Should Have Distributed Fringe Benefit Reimbursements To The Fiscal Court In A Timely Manner
- 2004-02 The Former Sheriff Should Have Maintained Adequate Supporting Documentation For COPS Grant Reimbursement Request
- 2004-03 The Former Sheriff Should Have Obtained A Salary Cap For Deputies' Salaries
- 2004-04 The Former Sheriff Should Have Made Daily Deposits
- 2004-05 The Former Sheriff Lacked An Adequate Segregation Of Duties
- 2004-06 The Former Sheriff Should Have Submitted Required Financial Reports To The Governor's Office For Local Development
- 2004-07 The Former Sheriff Should Have Improved Internal Controls Over Fee Expenditures
- 2004-08 The Former Sheriff Should Have Improved Internal Controls Over Payroll Records

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Leslie County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 21, 2007

LESLIE COUNTY
JOHN C. MORGAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

Federal Grants		\$	127,566
State - Kentucky Law Enforcement Foundation Program Fund			20,972
State Fees For Services:			
Finance and Administration Cabinet			19,486
Circuit Court Clerk:			
Fines and Fees Collected			1,654
Fiscal Court			5,586
County Clerk - Delinquent Taxes			2,856
Commission On Taxes Collected			121,229
Fees Collected For Services:			
Auto Inspections	\$	1,910	
Accident and Police Reports		344	
Serving Papers		10,789	
Carrying Concealed Deadly Weapon Permits		<u>3,310</u>	16,353
Other:			
Forfeitures			3,089
Add On Fees			62,510
Sheriff's Fees			6,264
Lake Patrol			11,550
Mental Patients			4,690
Miscellaneous			171
Interest Earned			<u>67</u>
Total Revenues			<u>404,043</u>

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
 JOHN C. MORGAN, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 228,161	
KLEFPF Incentive	<u>20,972</u>	\$ 249,133

Employee Benefits-

HIDTA Fringe Benefit Reimbursement	9,964	
COPs Fringe Benefit Reimbursement	19,127	
KLEFPF Fringe Benefit Reimbursement	<u>1,525</u>	30,616

Contracted Services-

Accounting Services		575
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Materials and Supplies-

Office Materials and Supplies	7,623	
Uniforms	<u>2,399</u>	10,022

Auto Expense-

Maintenance and Gasoline		18,973
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Other Charges-

Conventions and Travel	1,314	
Dues	725	
Postage	4,136	
Carrying Concealed Deadly Weapon Permits	1,400	
Miscellaneous	<u>2,648</u>	10,223

Capital Outlay-

Office Equipment		2,100
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Debt Service:

Loan Principal	3,149	
Loan Interest	<u>285</u>	<u>3,434</u>

Total Expenditures		325,076
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Less: Disallowed Expenditures

Miscellaneous		<u>72</u>
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Total Allowable Expenditures		<u>325,004</u>
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Net Revenues		79,039
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Less: Statutory Maximum		<u>61,860</u>
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Excess Fees		<u>17,179</u>
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Excess Fees Due County for 2004*		<u>\$ 17,179</u>
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*Note – The former Sheriff presented a check to the County Treasurer for \$16,663 on March 15, 2006.

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 7, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$442,780 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of June 7, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's Bank in the county official's name	1,614,599
Uncollateralized and uninsured	<u>442,780</u>
Total	<u><u>\$ 2,157,379</u></u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Loan Payable

The Office of the Sheriff is committed to a loan agreement with Peoples Bank and Trust Company for a vehicle. The loan agreement requires a monthly payment of \$276 for thirty-six months to be completed on June 6, 2006. The principal amount outstanding as of December 31, 2004 was \$4,736.

Note 5. Lease

The Office of the Sheriff was committed to a lease agreement with Great America Leasing Corporation for a copier. The agreement requires a monthly payment of \$95 for 36 months to be completed on December 29, 2006. The total remaining balance of the agreement was \$2,273 as of December 31, 2004.

Note 6. Drug Enforcement Account – Purdue Pharma Grant

The former Leslie County Sheriff's office applied for and was awarded a grant of \$10,000 from Purdue Pharma for the specific purpose of conducting investigations focused on the abuse and diversion of prescription drugs throughout the Leslie County area. Grant expenditures of \$6,295 made during 2004 were for the intended purpose and the former Sheriff's office was in substantial compliance with the reporting requirements of the grant agreement. The former Sheriff earned interest of \$24 on this account during the year and had an ending balance of \$3,729 at December 31, 2004.

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COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JOHN C. MORGAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

2004-01 The Former Sheriff Should Have Distributed Fringe Benefit Reimbursements To The Fiscal Court In A Timely Manner

The former Sheriff did not distribute fringe benefit reimbursements to the fiscal court in a timely manner. HIDTA grant receipts totaling \$9,964, COPS grant receipts totaling \$19,127, and KLEFPF receipts totaling \$1,525 included reimbursement for fringe benefits paid by the employer. The former Sheriff's office did not pay the fringe benefit portion of payroll expenses; instead the Leslie County Fiscal Court paid these expenses on behalf of the former Leslie County Sheriff. Even though the former Sheriff distributed the reimbursement to the fiscal court when the auditors called it to his attention, such receipts are restricted and should have been expended for their intended purpose at the time reimbursement was received. Therefore, the former Sheriff should have distributed fringe benefit receipts to the fiscal court in a timely manner to ensure that disbursements were accounted for properly.

Former Sheriff's Response: The amount listed above will be distributed to the Leslie County Fiscal Court in a timely manner.

2004-02 The Former Sheriff Should Have Maintained Adequate Supporting Documentation For COPS Grant Reimbursement Request

The former Sheriff did not maintain documentation to support the amounts included in the COPS reimbursement requests. During 2004, the former Sheriff received reimbursements totaling \$73,462 for five COP grant draw down requests. The former Sheriff did not maintain any calculations or supporting documentation for the reimbursement amounts included on those draw down requests. Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (also known as the "A-102 Common Rule") section 13.20 requires the Sheriff to comply with all applicable laws and procedures. In addition, the former Sheriff should have ensured that fiscal control and accounting procedures were sufficient to prepare accurate, current, and complete reports. Therefore, the former Sheriff should have strengthened internal controls over grant accounting procedures by maintaining adequate documentation for reimbursement requests.

Former Sheriff's Response: This grant was obtained by the previous sheriff. The incoming sheriff was not made aware of the grant until all the paperwork was past due. We had little time to learn just the order that the COPS paperwork was to be handled. In the future all grants will be handled with more care.

LESLIE COUNTY
JOHN C. MORGAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

STATE LAWS AND REGULATIONS: (CONTINUED)

2004-03 The Former Sheriff Should Have Obtained A Salary Cap For Deputies' Salaries

While the fiscal court approved a budget for the former Sheriff's office for 2004 on January 28, 2004, they did not fix the annual maximum salary allotment for the Sheriff's office in accordance with KRS 65.530(3). This statute requires the fiscal court to fix annually the maximum amount, including fringe benefits, which the Sheriff may expend for deputies and assistants, and allows the Sheriff to determine the number to be hired and individual compensation of each deputy and assistant. In the absence of a salary cap set by the fiscal court, we have used the salary budget line included in the Sheriff's operating budget set by the fiscal court to determine if the former Sheriff exceeded the salary limit set in his budget. Based on this comparison, the former Sheriff exceeded his budget by \$90,933. The former Sheriff should have obtained a salary cap for deputies from the fiscal court by using the "Annual Order Setting Maximum Amount For Deputies And Assistants" provided by the Kentucky Governor's Office For Local Development, and he should have remained within the limitations of such order.

Former Sheriff's Response: This will be done in a timely manner.

2004-04 The Former Sheriff Should Have Made Daily Deposits

The former Sheriff did not deposit receipts daily. During our test of receipts, it came to our attention that some of the deposits were not made on a daily basis. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements which include depositing receipts intact on a daily basis and reconciling receipts to a daily check out sheet. The former Sheriff should have deposited receipts daily as required by the State Local Finance Officer.

Former Sheriff's Response: We will deposit daily as required by the State Local Finance Officer.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2004-05 The Former Sheriff Lacked An Adequate Segregation Of Duties

The former Sheriff's office lacked an adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official had limited options for establishing adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness.

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. This could have been documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences could have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

LESLIE COUNTY
JOHN C. MORGAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (CONTINUED)

2004-05 The Former Sheriff Lacked An Adequate Segregation Of Duties (Continued)

Former Sheriff's Response: These comments although "General" do not seem fair, because they are "General Comments". Are there so many officials that "lack of adequate segregation of duties" that everyone falls into this category? We will comply with statements above.

Auditor's Reply: Segregation of duties is an issue that many fee officials face due to staffing levels. We, along with the Governor's Office for Local Development, are available to discuss with any local official specific compensating controls that can be implemented based on specific situations.

2004-06 The Former Sheriff Should Have Submitted Required Financial Reports To The Governor's Office For Local Development

The former Sheriff failed to prepare and submit the required quarterly financial reports to the Governor's Office for Local Development. The State Local Finance Officer, under the authority of KRS 68.210, requires the quarterly report to be cumulative and to reflect the status of each individual receipt and each individual disbursement category. Quarterly reports are due to the State Local Finance Officer within thirty days following the close of each quarter. The former Sheriff should have complied with KRS 68.210 by submitting the required quarterly reports to the Governors Office for Local Development

Former Sheriff's Response: We will comply.

2004-08 The Former Sheriff Should Have Improved Internal Controls Over Fee Expenditures

The former Sheriff did not personally sign all checks written for fee account expenditures. While performing our test of expenditures, we noted instances in which the bookkeeper signed the Sheriff's name. In order to adequately control checks issued from the fee account, the practice of allowing employees other than the Sheriff to sign his name on checks should have been discontinued.

Former Sheriff's Response: We will comply.

2004-09 The Former Sheriff Should Have Improved Internal Controls Over Payroll Records

The former Sheriff did not maintain employee or employer signatures on payroll records. Our review of the Sheriff's payroll revealed that payroll sheets were prepared for all employees, but there were no signatures from each employee or the Sheriff documenting approval by either party. In an effort to strengthen internal control over payroll records, the former Sheriff should have required each employee to sign the appropriate payroll record. The former Sheriff should have also approved and signed all payroll records before processing.

Former Sheriff's Response: We will comply.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable John C. Morgan, Former Leslie County Sheriff
Honorable Paul R. Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Leslie County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated June 21, 2007. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations as items: 2004-05, 2004-06, 2004-07, and 2004-08.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items: 2004-01, 2004-02, 2004-03, and 2004-04.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 21, 2007

